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SUBJECT: Greece: Government Manages to Suspend Port Strike, But For How Long and At What Cost?

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¶1. (SBU) SUMMARY: Confronting its first major challenge since taking office, Greece's new PASOK government negotiated a temporary suspension to a dockworkers' strike on October 17. Latching onto PM Papandreou's pre-election promises to re-examine privatization agreements, dockworker unions at the port of Piraeus went on strike October 1, demanding that the government scrap a concession deal granted to the Beijing-based China Ocean Shipping Company (COSCO) Pacific. COSCO is a shipping conglomerate scheduled to take over management of one of two existing cargo terminals on October 1 and to rebuild and manage a third terminal currently not used. The tentative deal to suspend the strike, about which few details are known, ended a 16-day saga that had paralyzed Greece's busiest commercial seaport, cost businesses and the government tens of millions of euro in lost revenue, and stranded over 10,000 shipping containers.

¶2. (SBU) SUMMARY CONTINUED. On the surface, the suspension of the strike appears to be a win for the new government. But it was not the decisive pro-business, pro-competition conclusion for which many affected business and potential investors had hoped, and it remains unclear what the government promised dockworkers to go back to work and whether it can deliver. Despite the suspension of the strike, and depending on any further negotiations, the PASOK government will continue to face challenges placating the powerful dockworkers' union as well as other labor groups looking to exploit the government's pro-labor leanings. More significantly, PASOK's apparently ambivalent approach to upholding the terms of the COSCO contract--signed by the previous government and approved by Parliament--raises fresh doubts over Greece's ability to attract and retain foreign investors in the midst of a global financial crisis that is forcing all to compete for a dwindling and increasingly risk-averse pool of foreign direct investment (FDI). In a battle that serves as a microcosm for the innate tensions in Greece between social democratic instincts and efforts to modernize and make the economy more competitive in order to attract much needed foreign investment, the victor remains elusive. END SUMMARY.

COSCO: A Controversial Privatization from the Start

¶3. (U) In November 2008, in the presence of former ND Prime Minister Kostas Karamanlis and visiting Chinese President Hu

Jintao, COSCO and the Piraeus Port Authority (OLP) signed a landmark 4.3 billion euro (6.4 billion USD) port privatization deal granting COSCO up to a 35-year concession to manage one of two existing terminals and to rebuild a third terminal at Piraeus, Greece's largest port, near Athens, and the top container port in the eastern Mediterranean. (See reftel for Greek and Chinese perspectives on the deal.) Under the terms of the contract, COSCO's Greek subsidiary was granted, after a transition period, the right to manage all shipping transactions at terminals II and III. In exchange, COSCO promised to: a) retain for the time being all employees that currently work at the two terminals it will oversee (approximately 600 out of OLP's current Piraeus workforce of 1,500); b) invest millions of euro to upgrade the terminals' container-handling capacity, more than doubling the port's current capacity, thus creating 1,000 new jobs; and c) reserve 10 percent of new hires for the qualified children of current unionized OLP employees. OLP, in turn, would retain exclusive control over the operations of terminal I. In the view of the Athens Chamber of Commerce and Industry (EBEA), this landmark deal was a win-win for all parties. For the GoG, which managed to achieve a major agreement prior to the onset of the financial crisis in Greece, the privatization and resulting expansion of port capacity was seen as helping to create greater role for Greece in Mediterranean shipping and transport. Export and import businesses and consumers hoped to benefit from increased port competition, which would decrease processing fees and reform the inefficient and corrupt offloading process, bringing down shipping costs and the cost of consumer goods over time. For labor in general, the deal maintained intergenerational job security and provided the possibility of new jobs.

¶4. (SBU) Dockworker and port authority employees' unions, which had been calling intermittent complete and partial strikes and refusing to work overtime and weekends since the government announced the international tender for the port's operations in early 2008, immediately criticized the deal in November and continued to refuse to work overtime or weekends. Coinciding with the negative effects of the global economic crisis on shipping worldwide, strike action resulted in the Piraeus port suffering the biggest decline in container traffic among the world's 100 busiest ports, caused several major shipping companies to temporarily forsake Piraeus for the Greek port of Astakos and other European ports, and increased the cost of transported consumer goods as a result of higher transport and processing costs. While no specific statistics are available, EBEA indicated to DepEconCouns that many Greek export businesses were forced out of business as a result of delays and increased costs.

Dockworker Unions: A Powerful, Corrupt Monopoly

¶5. (SBU) The Dockworkers' Union and the Federation of Greek Port Personnel (OMYLE) have long held a labor monopoly over the operations of Greece's two major ports in Piraeus and in Thessaloniki. Controlling exclusive contracts with the Piraeus Port Authority (OLP), the unions have reaped substantial financial benefits, with ironclad job security, guaranteed hiring privileges for the children of union members, and annual dockworker salaries in the range of 90,000 to 140,000 euro (135,000 to 210,000 USD), once overtime and other benefits are factored in--far above the average Greek yearly salary of 32,280 USD (National Statistics Services of Greece, data for 2008). According to union contacts, EBEA, and media reports, dockworkers also benefit from systematized corruption, manipulating the customs processing bureaucracy to expedite the containers of shippers who pay an extra fee--or holding up imports for those who refuse. All of this translates into what EBEA describes as the most expensive port in Europe in terms of fees and costs for shipping companies, importers, and

exporters. Privatization and competition would change all this and lessen opportunities for rent-seeking behavior. Post's union contacts described the COSCO deal as threatening long-established dockworker salary levels and inter-generational job security, as OLP will need to cut costs in some way in order to stay competitive with the COSCO-operated terminals. Union officials noted that while they traditionally wield powerful influence within PASOK, they were willing to fight any government seeking to reduce their benefits.

PASOK as Candidate vs. PASOK as Government

¶6. (SBU) During the run-up to October domestic elections, PASOK party leader (and current prime minister) George Papandreou and his team played to traditional PASOK constituencies, such as the dockworkers and labor unions, by criticizing the COSCO and other privatization deals signed by the New Democracy (ND) government and promising to re-examine and potentially renegotiate them once in office. This populist rhetoric was seized on by the dockworkers' union as a sign of support for their cause, and the union announced a strike days before the October 4 election, forcing the issue to the forefront of the PASOK agenda.

¶7. (SBU) After PASOK's electoral victory, PM Papandreou directed Louka Katseli, his new Minister of Economy, Competitiveness and Merchant Marine, to deal with the dockworkers. Katseli, who is, according to many Embassy contacts, sympathetic to labor causes, was initially criticized in the press and by businesses for her early handling of the crisis and was seen to have failed to take a decisive, firm position with the unions. (NOTE: At one point, Papandreou announced that he would transfer the task of negotiating between COSCO and the unions from Katseli to the Deputy Minister of the Ministry of Infrastructure, Transportation, and Networks, but

at least publicly, Katseli appeared to remain in the drivers' seat. END NOTE.) Katseli made general announcements to the press that the GoG was "in negotiations" with the parties and had started talks "on a new basis" but provided few details. Katseli repeatedly stressed the importance of the shipping sector and of turning Piraeus into a Mediterranean hub to Greece's economy, but failed to mention the importance of strategic agreements such as the COSCO deal in achieving this goal.

The Business Perspective: Enforce the Contract!

¶8. (SBU) COSCO's position on the strike, according to press reports, was that it was willing to "discuss" issues of "mutual benefit" but only after dockworkers returned to work. EBEA told DepEconCouns that under the terms of COSCO's contract, COSCO was entitled to damages of 1.5 million euro per day for any delays in the implementation of the contract but had decided not to exercise the penalty clause pending timely resolution by the GoG. EBEA officials also said that COSCO and Greek and international export-import businesses were increasingly frustrated by the government's failure to force the strikers back to work. As a result, on October 16, EBEA filed a lawsuit to declare the strike illegal, citing as a precedent a 2008 court case that ruled the

2008 dockworker strike actions "illegal and abusive" and prohibited future repetition of the same actions for the same reasons and demands (i.e., to force the government to abrogate the contract with COSCO). EBEA President Constantine Michalos said that it was an "embarrassment" and a "dereliction of duty" that the government did not go to court on its own. The following day, likely due to the lawsuit and Katseli's verbal assurances against layoffs and guarantees to expand hiring privileges for dockworkers' children, the union agreed to suspend the strike and return to work. Press reports indicated that the strikers agreed to return to work to allow for discussions with COSCO, and that the first stage of COSCO's operations to take over the privatized terminals has been delayed from October 1 to November 2. It remains unclear what the dockworkers were promised and what COSCO is willing to negotiate.

Costs and Consequences

¶9. (SBU) The series of intermittent strikes at Piraeus, culminating in the most recent work stoppage, has further exacerbated the impact of the global financial crisis on port revenues. According to EBEA officials, the port lost 500,000 euro (750,000 USD) a day during the recent 16-day strike. EBEA also calculates that the loss of public revenues (from taxes and levies) amounted to 3 million euro (4.5 million USD) per day. These losses do not include the financial impact on local industries from delayed or cancelled deliveries and exports, estimated by the Association of Attica and Piraeus Industries (SBAP) to be 5 million euro (7.5 million USD) per day. Other, less easily quantifiable losses include the effect on export-reliant Greek businesses that have already suffered in the financial crisis. EBEA told DepEconCouns that they expect this strike to deal the death knell to dozens of these businesses as the people and companies they supply will make permanent moves to other suppliers in other, more reliable countries. Some press reports indicated that the 10,000 containers stranded at the port contained items such as food and medicine that already may have perished. Perhaps the most difficult cost to quantify is the loss of credibility and harm to Greece's and PASOK's reputations, as the lack of decisive action highlights for potential investors the challenges of doing business in Greece and a potential lack of contract enforcement.

¶10. (U) According to the World Bank's "Doing Business 2010" survey, Greece is ranked last overall among OECD countries for ease of doing business. Compared to all countries worldwide, Greece's ranking for ease of hiring and firing workers fell 12 spots, to 147th in the world. Transparency International's 2009 Global

Corruption Barometer reported that 18 percent of Greeks reported that they or their family members had paid a bribe in the previous 12 months--placing Greece in the same company as countries such as Nigeria and Belarus.

COMMENT: PASOK: Caught Between Rhetoric and Reality

¶11. (SBU) While the strike's suspension may at first glance seem to be a victory for the government, the strike and the GoG's handling of it underscore how the party is caught between its pro-labor,

socialist-leaning ideals, and the practical measures it must implement in order to reform and restart the Greek economy. Papandreou came to power promising many things to many people. He promised PASOK's traditional labor union constituencies that he would reexamine and potentially renegotiate privatization deals. He promised the average Greek citizen that his government would improve daily life and make government more transparent and accountable. He promised markets that PASOK would implement structural reforms and make Greece more business-friendly. Moving forward, however, it will be increasingly difficult for PASOK to try to please all these constituencies. In its worst financial crisis in over 70 years, Greece's economy has slowed substantially and its structural flaws have been further exposed. Most Embassy contacts consider Papandreou to still be in his post-election honeymoon period, but reality will soon catch up with him. Papandreou will have to take decisive, bold action to convince citizens, laborers, and investors alike that Greece is serious about structural reforms, that their contractual rights will be respected, and that Greece is a reliable investment partner. Absent such action, PASOK may doom Greece to a slow half-recovery--or worse. END COMMENT.
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